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CTS Corp. (CTS)

Q1 2015 Earnings Call

CORPORATE PARTICIPANTS

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

Ashish Agrawal
Chief Financial Officer & Vice President

OTHER PARTICIPANTS

John E. Franzreb
Sidoti & Co. LLC

Hendi Susanto
Gabelli & Company

Lisa R. Thompson
Zacks Investment Research, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. Good day, and welcome to the CTS Corporation First Quarter 2015 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Kieran O'Sullivan. Please go ahead, sir.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

Thank you. Good morning, and thank you for joining us today. Welcome to CTS's first quarter 2015 conference call. In the quarter, we advanced our strategic and operational plans and our performance. We continue to make progress on our strategy to simplify, to focus and to drive profitable growth. Our plant consolidations are on track, our focus on Sense, Connect and Move associated with our product lines is progressing and will guide our organic and inorganic investments.

We achieved another quarter of strong new business wins, which would strengthen our order backlog. We continue to improve our customer focus. Although sales were slightly lower in the first quarter of 2014 impacted by foreign exchange rates, we were able to improve our gross margins. Targeted internal investments are progressing, however, we do need some improvement in R&D spending in certain product lines.

Ashish Agrawal, our CFO, is with me on the call today. Ashish will take us through our Safe Harbor statement. Ashish?

Ashish Agrawal
Chief Financial Officer & Vice President

Before beginning the business discussions, I would like to remind our listeners that this conference call contains forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Additional information regarding these risks and uncertainties is contained in the press release issued yesterday, and more information can be found in the company's SEC filings.

To the extent that today's discussions refer to any non-GAAP measures relative to Regulation G, the required explanations and reconciliations are available in the Investor Relations section of the CTS website.

I will now turn the discussion back over to our CEO, Kieran O'Sullivan.

Kieran M. O'Sullivan

President, Chief Executive Officer & Director

Thank you, Ashish. Yesterday, we reported our first quarter 2015 financial results. First quarter sales were a little over $98 million, down 2% compared to the same quarter last year. Currency impacted sales by $2.3 million as the U.S. dollar appreciated against certain currencies. The impact was in line with our expectation of 2% to 3% of sales. Gross margins improved by 230 basis points. We were disappointed with our working capital performance but expect to get back on track within the year.

Adjusted earnings per share were $0.20 compared to $0.19 in the first quarter of 2014. New business awards for the quarter were $192 million. In our automotive product lines, we were awarded $92 million in new business and program extensions, driven by customers for pedals.

We also gained additional wins with ride height sensors, belt tension sensors, seat belt buckle sensors with OEMs and with Tier 1s. We extended our smart actuator volumes driven by solid execution on existing platforms. We expect to continue to gain momentum in this platform going forward. Overall, automotive market volumes are flat in Europe at approximately 20 million, U.S. improving marginally about 70 million units and China up to 24.5 million units.

On the electronic components product lines, we secured $100 million in new business awards, driven by strong wins in the Piezo product line. The Piezo wins include an extension of our contract in the HDD space for three years. We delivered the first set of new hydrophone products to our customers and were awarded new volume platforms with two customers.

Our development work for the ClearPlex product line is progressing well. We continue to secure design wins and expect to begin generating sales later in 2015 for small cell filter applications. We added two new customers in the frequency product line with sales beginning in 2016. Finally, we recently introduced our throttle sensor module for the Asian two-wheeler market. We are focused on driving organic growth through new products and new customers and are pleased with our strong performance on business wins in the first quarter.

In terms of guidance for 2015, we are maintaining our guidance of sales in the range of $400 million to $430 million and adjusted EPS in the range of $0.98 to $1.10. We will continue to monitor currency as we expect the headwinds could pressure financial results in 2015. Ashish will discuss more details in a few minutes.

Our board has approved an increase of $25 million to our share buyback program. This increase, combined with the remaining shares from the previously authorized buyback, brings the total program to approximately $32 million at current share prices. We are executing on our strategic plan. Good progress is being made on plant transitions to improve our cost structure. We are managing our operating costs and improving our profitability. The CTS management team stays committed to driving performance as well as building the foundation for growth.

I would now like to hand the call over to Ashish to take us through more detail on our results. Ashish?

Ashish Agrawal

Chief Financial Officer & Vice President

Thank you, Kieran. First quarter 2015 sales were $98.3 million, down 2.4% compared to the same quarter last year. Currency impacted us unfavorably by $2.3 million as the U.S. dollar appreciated against the euro and Chinese renminbi.

Gross margin for first quarter 2015 was 32.7% versus 30.4% in the same quarter a year ago. Margins increased year-over-year as we continue to achieve efficiency gains and implement material and labor productivity projects. Currency impact on gross margins was negligible as the unfavorable impact on sales was offset by a favorable impact on cost as the U.S. dollar appreciated against various local currencies in countries in which we have manufacturing operations.

Operating expenses in the first quarter of 2015 were 22% of sales compared to 19.6% in the same period last year. Operating expenses for the first quarter of 2015 included $738,000 in restructuring charges compared to $503,000 in restructuring charges in the first quarter 2014.

Now let's break down the operating expenses. SG&A expenses were $15.7 million in first quarter 2015 compared to $13.6 million in first quarter 2014. This increase was driven by the proceeds from sale of fixed assets recorded in the first quarter of 2014. Per our strategy, we have improved the underlying G&A costs and spent more on sales and marketing compared to the same period last year.

R&D expenses were $5.2 million in first quarter 2015 compared to $5.6 million in the same period last year. The lower R&D expenses were driven by timing of certain expenses and customer reimbursements. We will continue to invest more in new products to drive organic growth.

Net interest in first quarter 2015 was slightly better than the first quarter of 2014 on account of higher cash balances. In first quarter 2015, other expenses were $1.7 million. These were driven primarily due to foreign currency translation losses as the U.S. dollar appreciated compared to the European currencies. In first quarter 2014, we had experienced a similar foreign currency translation loss as the U.S. dollar appreciated compared to the Chinese renminbi.

The effective tax rate in the first quarter was 30.2%, which includes the impact of restructuring charges and certain one-time items. In the same period last year, our tax rate was 43.7%. The tax rate in the first quarter of 2014 was impacted by a charge of approximately $700,000 related to restructuring charges. We expect our tax rate for 2015 to be in the low 30s% range, excluding the impact of one-time charges, consistent with our prior estimation.

Our first quarter 2015 GAAP earnings were $0.19 per diluted share. Included in this number is a $0.01 charge for restructuring and related charges. Excluding these items, adjusted earnings per diluted share were $0.20 in the first quarter of 2015. GAAP earnings were $0.15 per diluted share in the first quarter of 2014. Included in the first quarter 2014 earnings were $0.04 in restructuring and related charges. Excluding these items, adjusted earnings per diluted share were $0.19 in the first quarter of 2014.

We continue to monitor currency fluctuations. In the first quarter, we saw an unfavorable impact of currency on our top line of $2.3 million, primarily related to the euro and Chinese renminbi. This impact was offset by the U.S. dollar strength against some other currencies in countries in which we have manufacturing operations. For the balance of the year, depending on the currency movements, we could see an unfavorable impact of 2% to 3% on sales and a $0.05 to $0.08 on earnings compared to our guidance.

Now going to the balance sheet, cash and cash equivalents were $138.3 million at the end of first quarter of 2015 compared to $134.5 million at the end of 2014. Our debt balance was $83.2 million compared to $75 million at the end of December 31, 2014.

Debt-to-capitalization was 22.1% at the end of the first quarter of 2015, up slightly from 20.6% at the end of last year. Controllable working capital comprised of accounts receivable plus inventory minus accounts payable was 13.1% at the end of the first quarter, up slightly from 12.6% in the same quarter a year ago. As Kieran highlighted, we have some work to do in this area, and we have clear actions identified to drive improvements during the balance of 2015.

For the first quarter of 2015, operating cash flow was a positive $483,000 versus a cash usage of $6.1 million in the same period a year ago. Capital expenditures were $1.2 million in the first quarter compared to $2.8 million in the first quarter of 2014. We repurchased 165,000 shares of CTS stock for $2.9 million in the first quarter of 2015. As Kieran mentioned, we have expanded our share repurchase program by $25 million and we'll continue to buy back additional shares in 2015.

This concludes our prepared comments. We would like to open up the line for questions at this time.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll now take our first question from John Franzreb with Sidoti & Company.

John E. Franzreb
Sidoti & Co. LLC
Q

Good morning, guys.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Good morning, John.

Ashish Agrawal
Chief Financial Officer & Vice President
A

Good morning, John.

John E. Franzreb
Sidoti & Co. LLC
Q

I guess I want to start with the guidance and the currency part of it. Two parts, so what I guess – currency wasn't – didn't have as a pronounced impact on the first quarter, maybe that we're worried about going in. Am I reading that properly? And secondly, on the guidance side, your $0.98 to $1.10 does not include that $0.05 to $0.08 potential headwind. I want to make sure I get both those right.

Ashish Agrawal
Chief Financial Officer & Vice President
A

So, John, you're right on the first part of your question in terms of the currency not having a as-expected large impact on our operating earnings. That was primarily driven by us getting some benefit from lower cost as the dollar appreciated again certain other currencies where we manufacture products. We did see a translation impact of approximately $0.035 related to the balance sheet assets that we have in non-U.S. dollars.

The second part, Kieran had a comment on that.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

No, you can.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Okay. Sorry. The $0.05 to $0.08 impact on earnings is outside of the guidance range. So we are saying that it could impact our guidance by $0.05 to $0.08 on the earnings.

John E. Franzreb
Sidoti & Co. LLC

Q

Thank you. Okay. And on the wins that you recorded in the quarter, looked a nice large quarter from electronic components of $100 million in new business. Can you kind of bracket it? Last quarter was another good quarter for wins. When do you expect to see some of that appear on the top line, Kieran?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

John, previously as before, you'll see some modest growth in 2016, and we're targeting to get to double-digit growth in 2017. I will tell you that the performance in the last quarter was very strong. That $92 million, that's really on the automotive products, it's really even out beyond 2018 and beyond that again.

John E. Franzreb
Sidoti & Co. LLC

Q

Right.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

And the components had a three-year contract with the HDD renewal. That's much more near-term. So it's in the next three years, including some later this year. And what I would tell you is, on the sales side, because we've spoken before, it's the big challenge that we have in terms of transitioning the growth with the whole profile change in our margin to complement it. We feel that we've got the most opportunity to move sales on the component side of the business.

That said, we've been very clear we've had some softness on some product lines in the component area, but we're very pleased with the progress we're making on the Piezo products and that we expect some good things to transpire there near-term, but I want to be very clear we've got work to do. It's not an easy run, but we're happy with the progress we're making.

John E. Franzreb
Sidoti & Co. LLC Q

Okay. As a general rule of thumb, Kieran, are the electronic component wins shorter in duration between winning the contract and recognizing on the revenue side, or is that not the case?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director A

No, you're pretty much on the boulder, John. Most of the component side is within the current year, except for Piezo, where you get some in current year but also some in the out years, one year to two years-plus.

John E. Franzreb
Sidoti & Co. LLC Q

Okay. Great. And your comments about getting an improvement in R&D spending, could you just elaborate on what you're referring to there?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director A

Yeah. There is – well, there's two things. Number one, as Ashish pointed out, there was some timing in terms of reimbursements. But I'd like us to be getting that spend a little stronger in certain of the product lines. Piezo is one example where we want to expand in certain technologies. When we look at the sensors and mechatronics, feel very good in certain product lines, but on the sensing side, getting a little deeper and stronger on our spend there, that's really where we're focusing most.

John E. Franzreb
Sidoti & Co. LLC Q

Do you have some sort of – go ahead.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director A

Sorry. Nothing broken, just trying to strengthen it. And the other aspect of that on the spend is we've been very clear that our ClearPlex product line, which is in for small cell deployment, that filter application we expect we'll ramp up the spend there as we get more design wins.

John E. Franzreb
Sidoti & Co. LLC Q

Are there some sort of hurdle rates that you have to approve of before the R&D project proceed?

Ashish Agrawal
Chief Financial Officer & Vice President A

So, John, on the R&D projects, we will look at those expenses like any other business case where we'll evaluate the potential for returns and the risks associated with that investment, just like any other business decision.

John E. Franzreb
Sidoti & Co. LLC Q

Okay. And I guess one last question, I'll get back into queue. Regarding the share repurchase, can you remind me how much cash is overseas versus domestic, and if what I think it is largely overseas, we'd be borrowing to fund some of that share repurchase?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

So, John, the majority is overseas and we would be borrowing to do some of that repurchase. But we feel we've got the right strategy and we're moving forward here with executing on the strategy, but we thought it was a good point in time in discussion with the management team and the board to step up the buyback.

John E. Franzreb
Sidoti & Co. LLC

Q

Okay. Thanks. I'll get back into queue, guys.

Operator: We'll go next to Hendi Susanto with Gabelli & Company.

Hendi Susanto
Gabelli & Company

Q

Good morning, Kieran and Ashish.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Good morning, Hendi.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Hi, Hendi.

Hendi Susanto
Gabelli & Company

Q

Kieran and Ashish, I would like to understand more about the FX impact. So let's say if euro weakens further, like, how should we think of the potential impact with regard to your guidance?

Ashish Agrawal
Chief Financial Officer & Vice President

A

So, Hendi, the $0.05 to $0.08 that we are indicating as a potential unfavorable impact on earnings, we are looking at the euro getting to about parity with the dollar.

Hendi Susanto
Gabelli & Company

Q

I see. And so, in other words, if euro did not get into parity with dollars, then you are seeing significantly less impact or maybe like not many -?

Ashish Agrawal
Chief Financial Officer & Vice President

A

That is correct, Hendi. And the other side is we have manufacturing operations in Canada, in Mexico, in Czech Republic, as well as China, other than the U.S. And how those currencies are moving versus the U.S. dollar will also impact. So, in the first quarter, what we saw was those currencies also depreciated against the dollar, and that helped us recover some of the top-line loss that we saw as the euro depreciated.

Hendi Susanto
Gabelli & Company
Q

Got it. And then, Kieran, you mentioned about, like, positive environment in the Piezo for hard disk drive. I'm wondering whether you can share more insight, especially in light that PC market is weak.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Yeah. I understand your question, but the platforms we're on are not being impacted as much. We've got a good forecast. You remember, Hendi, we had some softness in inventory buildup in the prior year, and we're not seeing any changes there or we would have given an indication of that. And the bigger thing is that we're getting scaled on to more platforms.

Hendi Susanto
Gabelli & Company
Q

Okay. And then with regard to the smart actuator, you said that the volume was higher. Could you give some outlook of what the smart actuator may look like this year?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Yeah. I don't know we've given guidance before on revenue. I don't think we have. So -

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Hendi Susanto
Gabelli & Company
Q

Not revenue, but maybe like demand environment, whether there could be some seasonality or -

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Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Yeah – no, no, we're not seeing big seasonality. We're seeing some – the business is strong. We've talked in the past about improving the margins, which we have. We've also highlighted that this being a new space for us with more complex product, we want to make sure we're proven. And there was a temptation, I would say, to run out and expand or try and expand more customers very quickly, whereas we refocused the strategy and said, let's make sure we do a good job for our first customer here, improve our capability, and obviously strengthen our performance overall from a margin and quality perspective. And I will tell you, what we're seeing now is we're being rewarded with new business and the relationships continue to strengthen.

Hendi Susanto
Gabelli & Company
Q

Okay. Yeah. And then, Kieran, you mentioned about small cell filter applications. I would like to learn that more. What are the end products of that small cell filter applications?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Mostly base stations would be the first area where we would engage with OEMs, and we've had some design wins and we're going through with the – testing now with the products. But also another small cell applications, and that would be used for different mobile applications. So we're carefully following that market, and really our focus at first point is on the small cell or base station side of it because it's a known market and we feel like we've got a very good product there in terms of weight, size and performance. And the team is very excited about the progress we're making and we think this will grow, but we're at the mercy of how the markets transition those products over to the new architectures and we're doing all the things to make sure we're ready for that.

Hendi Susanto
Gabelli & Company

Q

Thank you, Ashish and Kieran.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Thank you.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Thank you.

Operator: We'll go next to Lisa Thompson with Zacks Investment Research.

Lisa R. Thompson
Zacks Investment Research, Inc.

Q

Good morning.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Hi, Lisa.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Hi, Lisa.

Lisa R. Thompson
Zacks Investment Research, Inc.

Q

Hi. So I was playing around with the numbers here. Now, you said there was an impact of $1.7 million due to currency on net income. On a constant currency basis then, would you have earned then $0.25?

Ashish Agrawal
Chief Financial Officer & Vice President

A

So, Lisa, the $1.7 million is a gross impact. After tax, it would be a slightly smaller number.

Lisa R. Thompson
Zacks Investment Research, Inc.
Q

Right. I think I said the tax out -

Ashish Agrawal
Chief Financial Officer & Vice President
A

The impact on net earnings would be roughly – slightly over $0.03 per share.

Lisa R. Thompson
Zacks Investment Research, Inc.
Q

Okay. So you would have done more like 20% growth – earnings growth if you didn't have this?

Ashish Agrawal
Chief Financial Officer & Vice President
A

Lisa – yeah, keep in mind that last year also we had a similar currency impact. It just – coincidentally it was roughly the same magnitude, just a different currency.

Lisa R. Thompson
Zacks Investment Research, Inc.
Q

Okay. So it went the other direction or it was also -

Ashish Agrawal
Chief Financial Officer & Vice President
A

We recorded an expense last year in the first quarter and we recorded an expense in the first quarter this year.

Lisa R. Thompson
Zacks Investment Research, Inc.
Q

Okay. And just to clarify, when you did the adjusted EPS, you don't take out stock-based compensation, right?

Ashish Agrawal
Chief Financial Officer & Vice President
A

No, we don't.

Lisa R. Thompson
Zacks Investment Research, Inc.
Q

Okay. So it's not really a non-GAAP number. It's the adjusted number. All right. Because that actually gives you a few cents there too because you had much more this quarter than last year. Interesting. All right. So, one other things what I'm looking at, so this $100 million in new orders that are not automotive, can you break that down a little bit as to what buckets that belongs in or no?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

I would give you – we don't guide down to below that level, but the majority of that is, we said there's a three-year contract in the HDD space.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Which is the extension of our existing HDD business.

Lisa R. Thompson
Zacks Investment Research, Inc.

Q

Okay. So that's the most of it. And what other new products are coming on near-term? I knew that you're going to do a refresh of some old product line. You had some new things coming down.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Yeah, we're working on pedal lines moving into haptic pedals in one area on the sensing side. We're really expanding on the ride height sensing. You see that we talked about this in the call this morning, getting more traction not just in one region of the world but other regions as well. The ClearPlex RF solution is something we're very focused on. We're extending different variance in the actuator space. And I would tell you that we mentioned also that we're expanding some products in micro DSA, in sonar rays, which we mentioned in the call. And overall, the expansion of sensing capability, you'll see that we launched – it's a bit early to say how it's doing, but our first product in the Asian market for the two-wheeler market as well. So, nothing to report on that in terms of wins or anything yet, but we started the launch.

Lisa R. Thompson
Zacks Investment Research, Inc.

Q

Okay. Great. Thank you very much.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

Thank you, Lisa.

Operator: And at this time, we have one question remaining in the queue. [Operator Instructions] We'll take our next question from John Franzreb with Sidoti & Company.

John E. Franzreb
Sidoti & Co. LLC

Q

Yeah. This topic I don't think has come up in a while, but can you talk a little bit about the competitive landscape, especially in light of the euro, are your European competitors becoming more aggressive on pricing?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

John, we haven't seen significant changes yet. Obviously with the currency and contracts that's always something we watch for. But we've been gaining momentum with customers in Europe as well, and so not causing a big impact at this point in time.

John E. Franzreb
Sidoti & Co. LLC

Q

Okay. Great.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Something that stays on our radar.

John E. Franzreb
Sidoti & Co. LLC
Q

I'm sure. And regarding the guidance, can you talk a little bit about the cadence? At the midpoint, it looks like roughly $0.27, $0.28 per quarter if it's an even distribution. How does the balance of the year stack out as far as the earnings profile for the balance of the year, Kieran?

Ashish Agrawal
Chief Financial Officer & Vice President
A

John, let me make sure I understood your question. Was it more centered around currency impact or -

John E. Franzreb
Sidoti & Co. LLC
Q

No, I'm just looking at the midpoint of your guide from $0.98 to $1.10. If we take out first quarter, you're roughly at the midpoint of – suggesting a $0.28, right, per quarter?

Kieran M. O'Sullivan
President, Chief Executive Officer & Director
A

Yeah. John, what you've seen traditionally – we don't typically break it down by quarter, but what you've seen traditionally is that we're stronger in the second half of the year. As you get into the first quarter of the year, we're ramping up the new purchases and the material price reductions and we've got efficiencies going through the operations. So the best way we can help you with that is we're always stronger in the second half of the year.

John E. Franzreb
Sidoti & Co. LLC
Q

Fair enough. And you said you had some selling expense in the first quarter that made the SG&A a little bit higher. Are you through with that selling expense or can you just give us a little bit of color there?

Ashish Agrawal
Chief Financial Officer & Vice President
A

Yeah. So, John, last year, in 2014, we recorded some benefit from sale of assets. So that impacted our comparisons year-over-year. The underlying G&A is better than last year and the underlying sales and marketing expenses have increased compared to last year.

John E. Franzreb
Sidoti & Co. LLC
Q

All right. So the sales and marketing expenses that have increased, is that a permanent increase or is it a temporary?

Ashish Agrawal
Chief Financial Officer & Vice President
A

So that was part of our strategy to increase our presence in various parts of the world. So we are looking at that as a consistent increase to further strengthen our sales presence in different parts with the aim of growing our backlog and continuing our growth.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

And John, that's pretty important for us because we want to have a more balanced regional business going forward. And I would tell you, it's an investment in sales and marketing and we saw some results from that in the fourth quarter of last year with that large OEM win in Europe. And the other side of that is complementing that with some R&D application spend in those regions as well.

John E. Franzreb
Sidoti & Co. LLC

Q

Okay. All right. Just wanted to check. Thank you, guys.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

A

You're welcome, John.

Ashish Agrawal
Chief Financial Officer & Vice President

A

Thank you.

Operator: And it appears there are no further questions at this time. Mr. O'Sullivan, I'd like to turn the conference back to you for any additional or closing remarks.

Kieran M. O'Sullivan
President, Chief Executive Officer & Director

Okay. Well, thank you for joining us today. We'll continue to drive forward with our strategy with an emphasis on simplification, the focus we have on the business in driving profitable growth, and we're back to work here. So, thank you for your time this morning.

Operator: This does conclude today's conference. Thank you for your participation. You may now disconnect.